

LIBERTY LAKE SEWER DISTRICT NO. 1
Spokane County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. Controls Over Local Receipts Should Be Established

During our review of cash receipting at the district office, a system which collected in excess of \$321,000 during 1994, we found the following weaknesses:

- a. No cash receipts are issued at the time of payment.
- b. There is no separation of duties. The accountant receives payments, reconciles the bank statements, posts to customer accounts, and deposits payments with no management oversight. These are incompatible duties.
- c. Work orders for new connections are not numerically controlled. Thus there was no way to determine if all of the money due the district was collected and credited to the district's accounts.

The Washington State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual, Volume I, Part 3, Chapter 1, page 15, states:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in the reports.

The BARS manual states that separation of duties, supervision, and prompt recording of transactions are among internal control standards established by the U.S. General Accounting Office.

Without proper separation of duties, reconciliations, and management oversight, the district is unable to ensure that all money collected is credited to the district's accounts. Additionally, the district will not be able to detect errors and irregularities in a timely manner, if at all.

This situation exists because the incidence of local receipts has increased dramatically in the past few years and district management has not implemented an adequate internal accounting control system.

We recommend that the district design and implement an adequate system of internal controls over the local cash receipting system.